

**UNEMPLOYMENT,  
FULL EMPLOYMENT  
AND  
INDIA**

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**N. DAS, Ph. D., I.C.S.**



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INDIA

BY  
NABAGOPAL DAS,  
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## PREFACE

During recent months there has been so much loose talk on the platform and in the press of this country on the subject of unemployment and full employment that I felt that there was need for re-stating the elementary principles in clear, unambiguous language. The present volume is the result of my efforts in this direction. I claim no originality for what I have said about the first principles, but I do assert that the thesis propounded by me, viz., that a programme of full employment is feasible even in the India of to-day, is one which would be considered utopian and even dangerous in many quarters. I shall, however, consider my labours amply rewarded if the arguments put forward by me make persons in authority look at our economic problems from a new angle.

I should add that the views expressed herein are entirely my own and should not be taken to reflect those of Government.

C/o GRINDLAY & CO., LTD.,  
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N. DAS





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# CHAPTER I

## THE NEW APPROACH TOWARDS THE PROBLEM OF UNEMPLOYMENT

Less than two hundred years ago—in the first half of the nineteenth century—the view prevailed that unemployment was due largely to defects in individual character. It was naively argued that men remained unemployed because they were unemployable—because they lacked the necessary training and aptitude to adapt themselves to changing economic and social conditions. To-day we have travelled far from this rather morbid approach towards the problem of unemployment, but it was not until the last War had shaken the very foundations of social and economic beliefs in almost all the countries fighting on the side of the Allies that the prevention of unemployment came to be accepted, without any qualification or reservation, as the responsibility of the State.

It would be interesting to analyse how imperceptibly but surely the emphasis on the responsibility for unemployment has shifted from the individual to the State. Even when it was conceded that the individual was not much to blame and that he was but a victim of circumstances, economists were loath to admit that the economic structure had anything to do with it. Not a few of the nineteenth century economists endeavoured to find a cause for periodic unemployment in



climatic conditions. Climatic conditions, it was maintained, determined the abundance and scarcity of harvests, and upon these largely depended industrial conditions throughout the world. They argued that raw materials played a vital part in industry and trade and the failure or abundance of commercial crops made a vast difference not only to the agricultural communities themselves, but also to communities where the crops were utilised as raw materials of industry and trade. The most important of these 'theories' was the famous 'Sunspot Theory' of W. S. Jevons, who sought to prove that the periodic appearance of spots on the surface of the sun coincided with the failure of the monsoons and with general agricultural depression throughout the world. That this view lingered in many minds for a considerable time to come is proved by the fact that even Sir William Beveridge, the famous exponent of 'Full Employment' policy, had argued only about a quarter of a century ago that not infrequently changes of temperature might affect harvests and consequently business conditions in all countries of the world.\*

It was soon felt, however, that unemployment—whether periodic or chronic—was not an "act of God", but a man-made scourge. It was conceded that general unemployment was due to the inability of society to adjust its economic organisation to changing conditions, and even cyclical fluctuations were due to defects in the organisation of industry and trade rather than to vagaries of climate. Even so, opinions differed as to what the weaknesses in the economic organisation were and whether unemployment was inevitable or not.

\*Vide his article on "Weather and Harvest Cycles" in the *Economic Journal* (London), December, 1921.



Broadly speaking, there came to exist three schools of thought on the causes of unemployment. One school thought that unemployment was a penalty for deviating from *laissez faire*, i. e., from free competition and free trade. The second school described unemployment as a result of trade cycles and, consequently, more or less inevitable : this school went further and maintained that unemployment, if fairly moderate, might even be wholesome. The third school attributed unemployment to lack of effective demand, which again was, according to them, the result of a deficiency of outlay on consumption and/or investment.

Those who opine that unemployment is a penalty for deviating from *laissez faire*, base their arguments on the rigidity of wage rates caused by monopolistic trade union practices and the so-called "dole system." According to them, if these restrictions were removed, competition would force wages down to the level where it became more profitable to entrepreneurs to employ more labour. Further, if business were left to itself, it would, through the interplay of competitive market forces, produce a natural equilibrium and in the long run all would be employed who can be employed, compatible with the natural resources and capital equipment that a country possesses.

It is obvious that facts do not accord with the above argument. There are no markets in which perfect competition exists and hence it is erroneous to assume that once restrictive forces are removed, things would automatically adjust themselves. The argument is the average businessman's argument who thinks that low wages would lower costs which would enable him to sell more at lower prices and thus give employment to more men. The fallacy lies in the fact that if all em-



ployers did the same, there would be merely adjustment of wages at new levels, but no greater employment : on the other hand, profits would go down, there would be no new investments and unemployment would be greater, and not less, in the long run.

Those that argue that unemployment is the result of trade cycles explain only *periodic* fluctuations in employment and do not give an effective answer to the causes of *general* unemployment. Booms and depressions may be due to competition between independent producers, resulting in a greater volume of production in anticipation of demand than is justified by the resources and demands of the community ; or, they may be due to the "waves" of optimism or pessimism which assail leaders of industry and trade, as suggested by Marshall, Pigou and Lavington. In any case, the wholesomeness of such periodic unemployment is now questioned by all serious students of economics. Nor do such business "cycles" necessarily lead to the weeding out of the less efficient producer : in practice, what happens is that the financially weakest producer is weeded out, and not the less efficient one.

We thus come to the most modern and perhaps the most rational approach to the problem of unemployment. According to this approach, unemployment exists because demand for goods and services is insufficient to make use of all the real resources available. It is not a case of shifting of demand from one product to another : it is a case of deficiency of demand on the part of the community *as a whole*. This acts and reacts in the following manner : there is deficiency of demand on the part of consumers with the result that the businessman refuses to invest, and when the businessman refuses to invest, production is curtailed ; curtailment of



production results in the curtailment of wages and retrenchment of workers, and these in their turn accentuate the deficiency of demand. There is another aspect of this deficiency of effective demand : sometimes people desire to save out of a given income more than the community wishes to absorb in offsetting spending, i. e., there is disequilibrium between savings and investment, and this leads to total demand, income and employment falling below the equilibrium level. For equilibrium to exist, it is argued, the amount saved by some must be borrowed or invested by others and spent either directly or indirectly on consumers' goods : only this enables a balance to be established between the total costs of industry and the amount spent on consumers' goods.

It follows from the above that there could be no unemployment, if savings and investment, consumption and production kept pace with one another. Unemployment is unthinkable in a primitive society having no division of labour and so system of distribution of the national dividend among land, labour, capital and organisation. "Unemployment is a result of a particular phase in the development of the economic organisation of a catallactic society, i. e., one based on exchange."\* Theoretically speaking, unemployment would be absent in the 'stationary state' as well as in the 'dynamic state' propounded by classical economists, provided full *laissez faire* prevails—including free competition between producers and between workmen. Unfortunately, however, full *laissez faire* never prevails in actual life, and, as a result, long spurts of rapid capital investment and over-employ-

\* H. S. Jevons on "Economics of Full Employment" in "Full Employment and State Control" (Ed. by D. Caradog Jones, London, 1945).



ment alternating with long periods of depression and unemployment have become a chronic feature of private enterprise economy.

The last War has made a complete re-orientation of the approach of economists towards the problem of unemployment. Even the most pessimistic of them saw that it was possible, during the period of the War, to create conditions for full employment. The natural query was : "If everybody can be given a job in war work, why cannot everybody have a job in peace-time production as well?" The issue was so plain and straightforward that it could no longer be avoided. So came the cry for 'full employment'—for the creation of a state of affairs in which periods of enforced idleness would be reduced to the minimum. Until the War came, the classical economists had assumed that supply created its own demand, and that there never could be anything worse than frictional unemployment or sectional overproduction. But actual facts in the pre-war years showed that decisions to save were not linked by any automatic mechanism with decisions to invest, and unemployment was more or less chronic. On the other hand, during the War-period, the enormous powers assumed by the State even in non-socialist countries, particularly in the spheres of control of foreign trade and public finance, control of wages and prices, regulation of labour market and control of savings and investment, brought about a condition of virtual over-employment. The State had to assume vigorous direct controls over the use by entrepreneurs of labour, materials, equipment and factory space. It also became necessary to compel many people to enter industry who would not have come forward under the prevailing level of wages. In any case, it was proved

beyond a shadow of doubt that unemployment was a man made scourge and it was not beyond the power of the State to eradicate it, even in a capitalist system with its tenets of profit motive and free enterprise.



## CHAPTER II

### THE CONCEPT OF FULL EMPLOYMENT

As soon as it became evident that the Allies were going to win the War, the attention of politicians and economists, particularly in the United Kingdom and the U.S.A., was directed to the prevention of the most disturbing phenomenon of the peace period, viz, the prevalence of mass unemployment. Sir William Beveridge and Prof. A. C. Pigou in Great Britain and the late President Roosevelt and Senator Murray in the United States started a campaign for maintaining during the post-war period a level of "full employment", because they rightly diagnosed that "economic tranquillity rests upon full employment with all the social gains that it means for the people". It was felt that while the purely material waste in a society in which a certain proportion of the people has to remain idle is considerable, the more serious evil of mass unemployment is not physical but moral, not the want it may bring but the hatred and fear which it breeds.\* As has been succinctly put by an

\* According to an estimate made by Sir William Beveridge if the unused labour resources of Great Britain between the two wars could have been brought into use, it would have been possible without any further change to increase the total output of the community by approximately one-eighth.



eminent economist, it is the feeling of not being wanted which demoralises the unemployed man or woman.

What do the terms "unemployment" and "full employment" mean? Unemployment is a condition of involuntary, not voluntary, idleness. It means a state of affairs in which, for various reasons, men have to remain without jobs over many months or even several years. Full employment, on the other hand, means a condition of society in which such periods of enforced idleness are reduced to the minimum, mainly because (a) effective demand for labour is always ahead of the supply of labour, (b) demand for labour is properly directed, and (c) both labour and industry are so organised that changes in the demand for labour synchronise, over a not too distant period, with changes in the supply for it, and *vice versa*. Full employment may, however, co-exist with unemployment: as a matter of fact, there is bound to be a certain degree of frictional unemployment\* even under conditions of full employment, because individuals who make up the labour supply are not completely interchangeable and mobile units. But full employment means that unemployment is reduced to short periods of standing by, with the certainty that very soon one will be wanted in one's job again or will be wanted in a new job within one's powers. As has been defined by Prof. Pigou, full employment merely signifies that everybody who, at the ruling rate of wages, wants to be employed, is so employed.

Following logically from the above, full employment

\* Sir William Beveridge goes a step further. According to him, the very definition of full employment postulates that there must be some unemployment—an irreducible minimum or a margin in the labour force must remain unemployed to make change and movement practicable.



postulates two things. Firstly, there should always be more vacant jobs than unemployed men and not slightly fewer jobs. Secondly, the jobs should be at fair wages and of a kind and so located that the unemployed men can reasonably accept them. If both these conditions are present, the normal lag between losing one job and finding another would be very short indeed.

Is full employment in the above sense possible in a free, individualistic society? Opinions differ on this point. Sir William Beveridge and others of his school of thought assert that although the problem of maintaining full employment is more complicated in a free society than it would be under a totalitarian regime, it is not impossible to attain it in an individualistic economy. Marxists and others, on the other hand, sincerely believe that the very nature of capitalistic economy, i. e., the conduct of industry by private enterprise prevents the synchronisation of the demand for labour with its supply, with the result that the lag between losing one job and finding another is prolonged indefinitely.

The experience of the present War, however, shows that even in an individualistic economy, unemployment can be made to disappear. This is done by (a) the State substituting its own schedule of needs and priorities in production over those of the private citizen. (b) the State securing complete direction of man-power, (c) the State expanding its own expenditure immensely and simultaneously reducing that of the private citizen by heavy taxes, borrowing and rationing, and (d) the State allocating labour and other factors of production by compulsory powers of conscription, direction and requisition. What is possible in war is not unattainable in peace, provided there exists the same social objective backed up by the same determination to secure that objective.



How can full employment be secured under peacetime conditions in an individualistic free economy? The most important measure whereby full employment can be secured is by assuring "adequate total outlay at all times". "The total outlay should always be high enough to set up a demand for products of industry\* which cannot be satisfied without using the whole man power of the country : only so can the number of vacant jobs be always as high as, or higher than, the number of men looking for jobs". This "adequate total outlay" cannot, however, be undertaken by private entrepreneurs acting by themselves : the State must assume the necessary responsibility for maintaining adequate total outlay. This does not necessarily mean that all outlay should be State outlay : "the bulk of the outlay may continue to be private, but the ultimate responsibility for seeing that outlay as a whole, taking public and private outlay together, is sufficient to set up a demand for all the labour seeking employment, must be taken by the State". To ensure adequate total outlay, the State, according to Sir William Beveridge, will have to prepare a new type of Budget † based on the datum of man-power. This Budget should be so designed as to ensure year by year total outlay sufficient to set up demand for the entire productive resources of the country.

\* "Industry" is used in the widest sense, covering extraction, manufacture, Construction, agriculture, distribution, finance, and personal services— that is to say, all forms of human activity designed to satisfy human needs.

† The orthodox Budget is prepared with reference to available money, and the maintenance of budgetary equilibrium in this sense is considered to be the corner-stone of a country's economic policy. The new type of Budget should be prepared with reference to available man-power ; after estimating how much private citizens may be expected to lay out on consumption and private investment, the Finance Minister must propose public outlay sufficient to employ the whole man-power of the country.



The second, though less important, condition for securing full employment is controlled location of industry which would facilitate proper direction of available labour to channels where it can be best employed. The control has to be both negative, prohibiting undesirable location, and positive, encouraging desirable location.

The third condition for securing full employment is controlled mobility of labour. This has to be achieved by organising the labour market. In part, this was done in pre-war Great Britain by setting up a national system of employment exchanges. During the War the use of the employment exchanges was made compulsory in many industries with a view to directing the supply of man-power in accordance with a national policy. It must be admitted, however, that these employment exchanges fell far short of having achieved an effective organisation of the labour market, and, after nearly thirty years of operation in the United Kingdom, it was found in 1938 that only one-third of all new engagements in private industry were made through these exchanges and the remaining two-thirds by direct negotiation between employers and labour.\*

While, therefore, there still is considerable scope for employment exchanges in the sphere of preventing friction in the labour market, controlled mobility of labour presupposes the adoption by the State of other devices as well. During the War, the State adopted various compulsory measures to ensure fluidity of labour. For instance, individual men and women were made to accept unfamiliar jobs under unfamiliar surroundings, mainly in the national interest. Trade unions also surrendered, by agreement, many rules and customs

\*Sir William Beveridge: *Full Employment in a Free Society* (London, 1944).



as to methods of work, demarcation of trades, types of labour, etc., in order that full mobilisation of the nation's strength might not be hampered. It would be necessary to continue these or similar measures in the post-war period, as otherwise it would be difficult to ensure that flexibility of labour supply which is essential for the maintenance of full employment.

In any case, the concept of full employment has caught the imagination of planners practically all over the world. It is no longer confined to the United Kingdom or Soviet Russia. Even in the United States of America, with its very strong traditions of individualism, "full employment" has become the cardinal objective of State policy. The plan of Henry A. Wallace, ex-Vice-President and Commerce Secretary to the U. S. Government, to ensure "sixty million jobs" for Americans has become a kind of economic Bible to the enthusiasts of that country. It has been argued that the alternative to full employment is so much human suffering in the shape of fear, insecurity, malnutrition and discouragement plus so much production lost\* that it would be far better to take a leap in the so-called dark and hope for new horizons of employment to unfold themselves. "Every American has a right to a job," contends Wallace, "and it is the responsibility of Government to safeguard that right". The mechanism of the Wallace Plan is akin to the Beveridge Plan in as much as it postulates the same kind of full employment budget as has been stressed by Sir William Beveridge ; it seeks to adopt the same measures of job-incentive when a job-deficiency occurs. The only special feature of

\*The loss in production has been estimated at 380 million dollars in the U. S. A. during the thirties of the present century. Vide Henry A. Wallace : *Sixty Million Jobs* ( New York, 1945 ).



Wallace's analysis is that the creation of "sixty million jobs" is practicable within the frame-work of the existing free enterprise system—even without a planned economy in the Beveridgian sense.

We have thus reached a stage in which the concept of full employment has become the objective of economic planning in every advanced country of the world. In Soviet Russia, the means to achieve this objective has been compulsory regimentation of *all* the economic factors of the country.\* In the "free enterprise" countries, on the other hand, this objective is sought to be attained by co-ordination of the economic forces and by only a *partial* regimentation of the national economy.

\*Alexander Baykov: *The Development of the Soviet Economic System* (Cambridge, 1946). Even in Soviet Russia, however, the State Plan and planning system were so construed as to combine centralized management with decentralized planning executives.



## CHAPTER III

### FULL EMPLOYMENT AND SOCIAL SECURITY

The demand for full employment has sometimes been expressed as a demand for social security, but this is not quite correct. Social security was specifically mentioned in the Atlantic Charter as one of the most important objectives of the United Nations. The late President Roosevelt also expressed the hope that after the War the nations of the world would attain, among other freedoms, freedom from want. Practical expression of these hopes and aspirations was given in various plans announced by certain members of the United Nations, the most important of which were the Beveridge Plan (United Kingdom), the Marsh Plan (Canada) and the Wagner-Murray Plan (U.S.A.).

What does this much quoted and discussed phrase "social security" mean? Like another phrase talked about a lot these days (I am referring to "economic planning"), a considerable amount of confusion prevails as to the meaning of social security. In the words of Sir William H. Beveridge, "social security starts from a diagnosis of want—of the circumstances in which families and individuals in a particular country might lack the means of healthy subsistence." From this diagnosis emerge certain conclusions. Abolition of want requires, first, "improvement of State insurance, i e., provision against interruption and loss of earning power—by extension of



scope to cover persons hitherto excluded, by extension of purposes to cover risks hitherto not included, and by raising the standard of benefit." Secondly, abolition of want requires "adjustment of incomes, in periods of earning as well as in interruption of earning, to family needs, i. e., in one form or another it requires allowances for children and pensions for retired persons". To summarise, the idea of social security springs from the deep desire of men to free themselves from the fear of want. To attain this objective, the causes of insecurity must be removed and the individual must be assured of that protection against the common risks of life which his personal efforts are unable to provide.

Historically, the concept of social security has been of comparatively recent origin. Under feudalism, the life of the labourer—whether he was a farmer or a craftsman—was more or less stable. His economy was undisturbed except for the direct impact of famine or of war. With the breaking up of feudalism, however, came the separation of men from the land and the beginning of movement. Men escaped their bondage, but only at the price of their security. There was dislocation of the farmer and the labourer from his tenancies or holdings ; with the substitution of casual labour, there was dislocation of men from life-long employment ; and here was of dislocation of craft and trade through the development of industries and commerce. A new civilisation had come, but it was faced with the problem of how to protect the worker against sickness, old age and various other personal exigencies : circumstances arose in which, almost against its will, poverty became a concern of Government.\*

\*Karl de Schweinitz : *England's Road to Social Security* (London, 1948).



Even when poverty became a concern of Government, it was a long time before the remedy of it was accepted as their *responsibility*. At first there was the widespread, unorganised relief which the poor received for themselves through begging. Then, there came into being avenues of organised help for persons in distress—these were the guilds, foundations of various kinds and the church. These institutions represented the positive approach to human distress, but soon it was found that they alone could not relieve the very large distress which prevailed. So came the beginnings of public relief and the earliest form of social assistance by the State was the poor relief. The care of the poor was made the responsibility of the parish and poor relief gradually came to embrace not merely cash benefits but also medical care, the provision of work, and vocational training.

The defects of the poor relief system were, however, threefold. Firstly, the village or small town on which devolved the responsibility of administering relief to the poor was often unable to provide the different kinds of care appropriate to each type of need. The most extreme and cruel form of this localism found expression in the 'Law of Settlement' enacted in the fourteenth year of the reign of Charles II whereby any poor person might be removed to his former parish, if, in the opinion of the local authorities, he might at some future time require assistance. Secondly, poor relief as administered in practice laid down conditions which amounted to making pauperism almost a sin and a crime, and in most countries receipt of poor relief was a definite handicap to the recipient (e. g. the recipient had no right to vote). Thirdly, the workhouse was established as the central device in the administration of relief, but conditions of living and work in most



of these workhouses were so horrid that people dreaded being sent to them. Many preferred starvation to confinement in the prison-like workhouse.

Meanwhile, a far better and more comprehensive system of public assistance was being worked out on the Continent—in the free cities of Hamburg and Munich. It was a combination of relief and work—related to the need for supplying equipment for the Army, and finance was provided from the public revenues as also through private institutions.

The philosophy of *laissez faire* continued to dominate English thought well into the latter half of the nineteenth century. It is true that the movement for *personal* service among the poor and the unemployed grew very strong during this period, but the feeling of the times was that poverty was a form of sin. "People were poor because they refused to profit by the abundant opportunities to improve their condition." As a result, there was a widespread campaign against outdoor relief. Even when the right to relief was conceded, it was restricted by so many demoralising conditions that few would avail themselves of it.

Towards the end of the nineteenth century, there came a new ferment, a new consciousness. There was a growing uneasiness, amounting almost to conviction, that the industrial organisation which had yielded rent, interest and profits on a stupendous scale, had failed to provide a decent livelihood and tolerable conditions of life for a majority of the people. On the Continent, far-reaching measures of social insurance and social assistance were adopted, Denmark giving the lead in the year 1891 with her non-contributory old-age pensions. There were of course certain qualifying conditions for the receipt of these pensions. For example, the recipient



had to be a national of the country which provided the pension ; persons with a criminal record were not entitled to any assistance ; and only such persons whose means fell below a prescribed amount could apply for it. Even in the United Kingdom, there was recognition of the principle that society had a duty towards its weaker members, which was not fulfilled by throwing them back on themselves, but required the adoption of genuine social measures. It was also recognised that those who sought or needed relief were neither better nor worse than men and women in general, and were for the most part victims of an unfair social system. A Royal Commission on the Poor Laws and Relief of Distress was appointed in 1905. This Commission reported in 1909 and although the minority consisting of Mrs. Beatrice Webb, Mr. George Lansbury, Mr. Francis Chandler and the Rev. Prebendary could not make the majority accept their viewpoint, they had at least put the latter on the defensive. As a matter of fact, what the majority report stated with qualification and almost reluctantly, the minority report asserted flatly and without reservation. There was a positive emphasis upon the importance of facilitating a "system of help" ; the workhouse as a test was abandoned ; it was recognised that, in place of a system of allowances granted capriciously and irresponsibly to meet a constantly increasing demand, it was necessary to substitute a system of careful and varied assistance, in which the "allowance" would be only one of many forms of help ; finally, the minority proposed a comprehensive programme of social assistance for both the able-bodied as well as non-able-bodied—in particular, a network of labour exchanges and a scheme of unemployment insurance over a wide range of industry. There



followed in quick succession an Old Age Pensions Act, the Labour Exchanges Act and the National Insurance Act (Health and Unemployment Insurance). Identical measures had been adopted in Germany during 1883-1889, but Great Britain could not rally to the new outlook until as late as 1909-11.

We thus see that, simultaneously with the increased provision of social assistance by the State, there has gradually arisen, in almost every industrially advanced country, a system of social insurance. Social insurance is based on compulsory mutual aid and is a compromise between social assistance and commercial insurance. In commercial insurance, there is equivalence of premium paid by the individual and the indemnity promised to him. In social insurance, there is no such exact equivalence. No doubt, the individual has to pay a certain premium, but this amount is supplemented both by his employer and by the State, with the result that the indemnity promised is much larger (and wider) than what would have been due to him, had the calculation been made merely on mathematical justice and long-term solvency. In other words, in social insurance, social justice is married to actuarial technique.

Social insurance has evolved in the following four main directions : workmen's compensation, sickness insurance, pension insurance and unemployment insurance. In most countries, these four branches of social insurance have developed more or less independently of one another, each adapting its structure and policy to the nature of its tasks. Lately, however, all of them have been influenced by common ideologies and have tended to move more and more along a common path



in methods of organisation, scope, benefit policy, as well as finance.

Social insurance began on a very comprehensive scale in Germany under Bismarck during the period 1883-89. Since then, it has made tremendous progress in other Western and Northern European countries, in Great Britain, in North and South America, and in Australia and New Zealand.\* Notwithstanding the very considerable benefits the individual receives under existing schemes of social insurance, it has been found, in practice, that they do not go far enough and are inadequate in many respects from the standpoint of social security. For instance, as social insurance schemes are administered at present, there is no unification among the various branches. There is far too elaborate a distribution of functions: the individual has to pay separate contributions for security against each type of risk and the indemnity that he receives is neither sufficient nor proportionate to his standard of living. Secondly, while existing schemes ensure a certain amount of security, they are still no better than a patchwork of *ad hoc* arrangements against specified risks, such as sickness, old age or unemployment, for specified groups or classes. There is no central planning organisation and there are still many people who are not covered. One does not feel that the State has plans to secure *every* class of its citizens against *every* possible hazard of economic life.

It is principally for the above reasons that the demand for a comprehensive plan of social security has become so acute and insistent to-day. Social security,

\* In the U.S.A., the first Social Security Act was passed in 1935—exactly 24 years after the great Social Insurance Act was adopted in the United Kingdom.



which represents the latest phase in the development of ideas, is meant to ensure universality of coverage in respect of persons and classes, as well as of risks. Under social security plans, not only are all the different hazards of economic life recognised by the State, but the essential similarity in the effect of each hazard is emphasised and all social risks are fused into a unified all-comprehensive scheme.

The above may be illustrated by referring to the most discussed social security scheme of to-day, viz., the Beveridge Plan, which preceded his Plan for Full Employment. Under the former Plan, there is unification of social insurance in respect of contributions, that is to say, each insured person would be able to obtain all the benefits by a single weekly contribution on a single document. This single contribution will eventually be broken up and distributed to the various constituent benefit funds to be separately maintained for accounting and costing purposes, but as far as the individual is concerned, he will make a single payment at a flat rate, irrespective of his means. All insured persons, rich or poor, will pay the same contributions for the same security ; those with larger means will pay more only to the extent that as tax-payers they pay more to the National Exchequer and so to the State share of the Social Insurance Fund. Secondly, the members of the population are classified into six groups, not according to earnings, but according to their ways of life. The six groups are—(i) employees ; (ii) others earning money ; (iii) housewives ; (iv) others of working age not earning money ; (v) children, i.e., those below working age ; and (vi) persons above working age who have retired. It is postulated that, within each of the first four classes, there will be a



flat rate of insurance benefit for all the principal forms of cessation of earning—unemployment, disability, physical disease or incapacity, retirement, maternity, widowhood, etc. The fifth class will receive special children's allowances and the sixth class will receive retirement pensions. The present practice of giving unequal benefits for equal compulsory contributions under the system of Approved Societies will be done away with and there will be provision against industrial accident or disease in the unified social security scheme. It is also proposed to separate medical treatment from the administration of cash benefits and to set up a comprehensive medical service for every citizen, covering all treatment and every form of disability. Thirdly, there will be unification of administrative responsibility in the interests of efficiency and economy. There will be in each locality a Security Office able to deal with claims of every kind and all sides of security. Fourthly, the benefits are to be adequate in amount and in time. There is recognition of house-wives as a distinct insurance class of occupied persons with benefits adjusted to their special needs ; there will be extension of insurance against prolonged disability to all persons gainfully occupied and of insurance for retirement pensions to all persons of working age, whether gainfully occupied or not ; there will be provision of training benefit to facilitate change to new occupations ; benefits will be the same for both unemployment and disability ; there will be retirement pensions for non-industrial workers as well ; there will be a universal funeral grant ; and, most important of all, except for contingencies of a temporary nature, benefits are to continue indefinitely without means test so long as the need continues, subject, in the case of unemployment, only to the require-



ment of attendance at a work or training centre after a limited period. Fifthly and finally, the British social security plan is intended to be comprehensive in character, in respect both of the persons covered and of their needs ; it does not propose to leave either to national assistance or to voluntary insurance any risk, general or uniform in character, which can properly be covered under the unified scheme of social insurance. As has been aptly described by a critic, the scheme will mean protection for every individual in Great Britain "from the womb to the tomb".

Naturally, such a plan of social security must be costly. According to Sir William H. Beveridge, the scheme would cost Britain £650 millions a year to start with and, by 1975, it would reach the figure of £850 millions a year. Financially, however, it is expected to be a self-balancing scheme. Contributions from insured persons would not be more than 25% of the total estimated income in the social security budget, and those from employers would be another 15 to 20%. But the balance of 55 to 60% would be met from the National Exchequer.

We thus see that the Social Security Plan of Sir William Beveridge, as also other social security plans that have been put forward in other countries, seek to provide, through the organisation of the State, security against certain risks to which *all* its members are exposed. Under these plans, *every* citizen has the confidence that benefits would be available when required and the protection would be adequate both in quality and in quantity. There is a new conception of minimum benefit rates. Subject to national capacity to shoulder the burden, the only limitation recognised is that benefits ought not to be so high as to leave insufficient



incentive to work. It is stressed in every plan that the benefits should not be much below the beneficiary's normal standard of living. Furthermore, in all these countries, social security policy is being pursued as part of a larger programme which includes measures for promoting employment and maintaining it at a high level, for increasing the national dividend and sharing it more equitably, for improving nutrition and housing, and for multiplying facilities for medical care. In all modern social security plans, there is an emphasis on preventive and restorative measures.

Social security plans are only a complement of full employment plans. While full employment should continue to be the objective of every State, it is obvious that this may not be attainable for some years to come : the gulf can be best bridged by adopting a comprehensive scheme of social security on the lines of the Beveridge Plan in the United Kingdom.

## CHAPTER IV

### ECONOMIC PROGRESS AND FULL EMPLOYMENT

It has been argued by some economists that a programme of full employment may mean a brake on economic progress and as such it may be desirable to weigh the pros and cons of such a programme before launching it.\* Protagonists of this view are distressed by prospects of a lower standard of living which may result from the rigid regimentation of economic forces by the State and think that, in the long run, it would be wiser to leave matters as they are rather than attempt to control or regulate economic forces in the interest of social security and full employment.

Such a view-point overlooks certain fundamental assumptions inherent in a policy of full employment. The first assumption is that, if any conflict arises between the two ends, social security and full employment on the one hand and material progress on the other, the latter must be sacrificed to the former or at least postponed until a reasonable degree of security has first been assured. The second assumption is that full employment may involve sacrificing—for a

\*The most prominent of such economists is Prof. A. G. B. Fisher. For a very intelligent exposition of this view-point, the reader is referred to his "*Economic Progress and Social Security*" (London, 1946).



temporary period—standards of living *in order to avoid unemployment*. In actual practice, it means mere postponement of present in favour of future satisfactions.

It may also be stressed that all talks on planning lose their meaning if they are not related to some broad *social* objective. Planning should be for social security in the widest sense—for full employment. If planners do not agree on some such social objective, planning will be like journeys undertaken together by a group of people who have not agreed as to the destination to which they want to go. In the new economics of to-day, welfare rather than wealth should be the goal of all economic efforts—production, distribution, consumption as well as exchange. If this is borne in mind, it will be found that social security and full employment do not necessarily mean economic stagnation. As a matter of fact, social security and material progress are not only not incompatible, but they go together.

The importance of the doctrine of full employment arises from the fact that the concept of social needs has changed. Fifty years ago, the idea of self-help was dominant in all concepts : the worker had to fend for himself in all contingencies of life and at best he could apply for charity or poor relief. Even these benefits were meagre, uncertain and precarious. Moreover, “they fostered conscience-saving self-indulgence among the rich and sapped the morale of the poor by the encouragement of scrounging and dishonesty. Even the administration of the Poor Law centred round the “general mixed workhouse” in which the able-bodied and the sick, the very old and the very young, the immoral, the half-witted and the respectable, all rubbed shoulders”.\*

\*Francois Lafitte : *Britain's Way to Social Security* (London, 1945).



A few years before the outbreak of the first World War and between the two Wars, there developed in Great Britain the various social insurance services. Unfortunately, these had to contend against a background of persistent unemployment on a scale hitherto unknown. The insurance scheme covered workers who had work at some time or other and who had paid contributions to the scheme. But it could not cover those—and their number ran into hundreds of thousands—who had never had any chance of work. As a result, various expedients had to be resorted to and pension schemes and supplementary assistance schemes had to be introduced, to cover those who were left untouched by the insurance scheme. Nevertheless, the social insurance services had one advantage over the old assistance method, viz., that the worker could count on a certain income *as a right*. Unemployment insurance in particular implied that unemployment was not a form of industrial malingering, but an involuntary contingency.

Thirty years of bitter experience have, however, demonstrated the futility of attempting to regard unemployment as an insurable risk. "No risk can be insurable if its probable incidence cannot be foreseen within fairly narrow limits.....In actual practice, it has been quite impossible to foresee the incidence of unemployment, and, therefore, to provide for it in advance by means of a nicely calculated system of contribution and benefits. Every year, the Unemployment Insurance Statutory Committee has carefully scanned the economic horizon in the attempt to foretell the economic weather. In every case, its prognostications have proved incorrect, not because its arguments were unsound, but because it was impossible for it to foretell that certain events would happen, and consequently it



could not estimate their probable effects on the incidence of unemployment.”\* To meet the absurd situation which arose, the scope of the scheme, the rates of contribution and of benefit, the conditions under which benefit was payable, the disqualifications to which claimants were subject, the share of expenditure to be borne by the State—all these and many other features had to be subjected to frequent alteration.

The working of the social insurance schemes between the two Wars brought out certain glaring defects. It was found that the treatment of social security had been incomplete and compartmental. There were far too many omissions and far too many agencies charged with the administration of various insurance and assistance schemes. Even the acceptance by the State of the obligation to make provision, through compulsory organisation and subsidisation, against the contingencies of sickness, widowhood, orphanhood, old age and unemployment, was half-hearted and halting. No doubt there had been a change in the moral attitude towards poverty and in an understanding of the economic causes underlying it, but it had not been unequivocally accepted that social insurance was an essential public device whereby the nation set aside a share of the national income from those in work to those unable to work, from the young to the old, from the childless to those with children, and from the well-to-do to the poor. So came the Beveridge Plan of social security—a massive reconstruction and unification of the social insurance services, with the specific purpose of bringing every man and woman in the country into a comprehensive scheme which would provide them, when unemployed,

\*W. A. Robson : *Social Security* (London, 1945).



ill, aged or widowed, with incomes at a rate adequate for maintenance, and which would provide special grants at the crises of marriage, maternity and burial. "Linked with the Plan were three assumptions which rounded off the major needs for social security—children's allowances, a national health and rehabilitation service and reasonably full employment."

The Beveridge Plan of social security, however, merely takes notice of the disease and prescribes means for dealing with it. It does not strike at the very root of the disease itself. An attempt to deal with the disease at source only occurs in the concept of full employment—the latest and most rational of all approaches towards economic progress.

In the ultimate analysis, a plan for full employment is nothing but a broad plan of national development indicating the major long-term trend it is desired to achieve—the industries and services which should expand and the industries and services which should contract, and the regional distribution of this expansion and contraction. This does not involve the planning of industry, agriculture or other economic activities in every detail : it only means that a broad layout of the manpower resources of the community is determined in advance and the policy of all Government Departments is directed to secure that layout. This is no "brake" on economic progress : it simply involves regulation of economic activities along specified channels for certain well-defined ends. The only agency which is powerful enough to achieve these ends is the Government's fiscal system : by appropriate manipulation of Governmental expenditures and receipts, it is possible for the State to prevent large fluctuations in the volume of employment and in the level of money income, and



at the same time to ensure an expansion of consumption commensurate with the capacities of a particular community.\*

\*Kenneth E. Boulding: *The Economics of Peace* (New York, 1946).

## CHAPTER V

### THE ROLE OF THE STATE IN THE IMPLEMENTATION OF A PROGRAMME OF FULL EMPLOYMENT

Few people would deny that mass unemployment is an evil fraught with grave social, economic and political consequences. After the experiences of the last War, few people would also deny that the State can and should take the lead in combating this menace. There is no such unanimity of opinion, however, as to what exactly the State should do : while some maintain that mass unemployment can never be eradicated until all the factors of production are owned by the State and the distribution of the national dividend is also effected by it, others are prepared to concede that a full employment policy can be successfully pursued even under capitalistic control and free enterprise. The difficulty in assessing the truth or otherwise in these two conflicting viewpoints is heightened by the fact that the community is a social organism and it is not feasible to make experiments on such an organism.

Nevertheless, certain broad conclusions can be drawn from the experiences of war-time production and employment conditions in the United Kingdom and the United States of America, and from what happened in Germany during the years 1933-38—the quinquennium immediately preceding the outbreak of the War.



Let us take the case of pre-war Germany first. While it is true that the full employment programme was pursued in that country as part of a general programme of mobilisation for war, the methods used merit study. We know that while Germany started in 1933 with a huge volume of unemployment, by the autumn of 1937, the free reserves of labour had been virtually exhausted and the number of unemployed represented no more than  $2\frac{1}{2}$  per cent of the total active labour force.\* We also know that the system of controls in that country left intact such essential features of the capitalist system as titles of property, free choice of occupation, the profit motive and private initiative. Nor was totalitarian control always tantamount to the arbitrary imposition of Government terms on the economic groups concerned. Except in wage determination, decisions regarding industrial policies, price fixation and similar matters were the results of negotiation and compromise rather than of dictation.† Full employment policy was achieved in Germany during this period in three principal ways—( i ) by control of foreign trade including exchange control, ( ii ) by control of wages and prices, and ( iii ) by regulation of the labour market, including regimentation of labour and extension of training facilities.

The experiences of the U. K. and U. S. A. during the period of the War have also been more or less the same. In both these countries, Government achieved a 'full employment' policy by (a) spending an immense amount of capital in production ancillary to the war

\*Vide article on "The German War Economy" by H. W. Singer in the *Economic Journal* (London), April, 1942.

†K. Mandelbaum on "An Experiment in Full Employment" in "The Economics of Full Employment" published by the Oxford University Institute of Statistics (Oxford, 1945).



effort, (b) directing labour to the industries and occupations where it was most urgently needed, (c) controlling prices and wages, (d) controlling investment as well as savings, (e) resorting to a managed currency, (f) regulating and controlling foreign trade, bank credit and long-term borrowing and, finally, (g) adopting a full-fledged policy of re-distribution of income. All these measures bridged the gulf between savings and investment, between production and consumption, and between prices and wages.

Of course, all these meant substantial encroachment on the field of free enterprise. The essential structure of a capitalist economy was not, however, disturbed, and the State depended very largely on the willing co-operation of both capital and labour to submit to the various controls and regulations.

It is arguable, therefore, that if the same attitude towards the authority of the State is maintained during the years of the peace, it should not be difficult to maintain full employment even when the need for 'supreme war effort' has disappeared. Of course, under State ownership, the task of planning full employment becomes much easier. "When the State owns all industry, full employment can be guaranteed, because the State determines not only the size of the total production plan but also the precise amount of labour and capital which should be assigned to the production of every kind, whether goods for immediate consumption or plant for the manufacture of more consumption goods."\* Under private enterprise, on the other hand, the very greater freedom for self-expression will bring in its train

\*"Full Employment and State Control" (Ed. by D. Caradog Jones), London, 1945.



the human obstacles to the introduction of full employment. As consumption and investment would remain under multiple control, the State could attain its objective only by a policy of stimulation, compensation or restraint. This, however, would not be easy—as very awkward issues, political, industrial and social, may be raised by the behaviour of different sections of the community.

Nevertheless, the experiment would be worth making, particularly as the full regimentation of all the factors of production by the State might not be easy in countries with strong individualistic tradition. What had been tolerated in times of war might not be so meekly tolerated in times of peace and at best the community might agree to only partial control and regulation. It is mainly for these reasons that all countries need not necessarily follow the totalitarian model, and some might chalk out their own methods of achieving full employment.

It is evident, however, that full employment is not possible without effective planning, and effective planning must involve expanding both capital equipment and consumption goods, and maintaining a proper ratio between them. Planning, to be effective, must involve control over consumers' incomes and prices and this could be achieved only by exercising substantial control over national income and expenditure and over the creation of new money. Planning of employment under private enterprise is thus possible only if the various sectional interests are prepared to accept discipline and to subordinate their own interests to those of the community as a whole.

It follows from the above that there should be a central organisation to direct the whole economic



life of the country, having behind it the authority of Government. The greatest weakness of the pre-war economy was failure to generate a sufficient and sustained demand for the products of industry. In the present post-war economy, it should be the duty of the State, directly or indirectly, to see that adequate new spending power is created when necessary and that the existing demand is made more effective by the control of monopoly and other adverse influences.

The question now arises when and to what degree the State can and should intervene in order to maintain a sufficient and properly distributed expenditure. Various answers have been given to this question but they are by no means unanimous. One way of achieving this end is to resort to redistributive taxation—taxation which is fair and reasonable not merely on grounds of social justice but on grounds of economic reason, i.e., to maintain full employment. In a capitalist economy, redistributive taxation may have to be imposed in such a way that the incentive to invest is not unduly restricted. On the other hand, deficit spending (i.e. expenditure beyond revenue receipts) may have to be resorted to by Government in order to maintain full employment. The gross distribution of incomes may also have to be properly adjusted.

Mere redistributive taxation and deficit spending on the part of Government cannot result in full employment, if they are unaccompanied by a number of controls on the one hand, and positive measures to re-allocate the productive resources on the other.\* In the former category would fall such controls as control of foreign trade, control of prices and wages, control of the total

\*A. G. B. Fisher on "Full Employment and Income Inequality" in the *Economic Journal* (London), March, 1946.



volume of private investment, etc. Under the second category, we may include the training of personnel, further educational opportunities and other measures to improve the mobility of labour.

The greatest difficulty in the way of executing a plan of full employment is the imperfection of the machinery of Government. To exercise control, adequate knowledge of economic facts is required. To execute plans properly, the activities of the various spending authorities and consuming groups have to be co-ordinated. All these mean impinging on vested interests at every stage and it is only by adhering steadfastly to the economic principles and social issues involved that Government can avoid pitfalls and achieve the goal of full employment.

## CHAPTER VI

### PUBLIC FINANCE AND FULL EMPLOYMENT

We have seen that, to achieve and maintain full employment, the State has to intervene—not merely in the spheres of planning and control, but also in the spheres of spending and taxation. As a matter of fact, the technique of public finance is the most important instrument for the implementation of a policy of full employment.

Budgeting for full employment differs from orthodox budgeting in two fundamental respects. In an unplanned economy, even when the State departs from the traditional *laissez faire*, its activities consist at best of a number of unco-ordinated acts of intervention. As a result, the orthodox budget is prepared with reference to available money and a Finance Minister is congratulated if he has been able to present a “balanced” budget. Even when he budgets for the future, his vision is restricted by the demarcated areas of State activity. A budget for full employment, on the other hand, has to be the over-all regulator of the factors of national income, production and consumption. Such a budget “will have clearly demarcated areas and magnitudes of public and private outlay, investment and consumption outlay, so that fiscal policy



can be directed to the attainment of set goals and priorities".\*

Secondly, budgeting for full employment cannot afford to be an annual budget in the orthodox sense. Full employment cannot be achieved in a year or two, and hence outlay, whether public or private, has to be planned over the period of the plan. "This means flexible, long-term budgeting, the pace of public outlay being adjusted to the outlay in the rest of the economy". Public outlay, on the other hand, is not limited by considerations of orthodox finance, but by the primary economic consideration that the total outlay in the economy should not exceed, or fall short of, the net addition to real assets and national income. As a direct corollary of this, budgeting for full employment has also to distribute the total outlay between various sectors in such a way that employment is maintained at a very high level. Furthermore, the financing of public expenditure as from taxation and loans becomes, in such a budget, a very important matter of fiscal adjustment.

In a full employment budget, the definition of 'productive outlay' also must undergo a significant change. Hitherto, "productive outlay" has meant those items of public expenditure which are self-liquidating in character and the monetary return of which is by itself adequate to cover the interest charges on borrowings made by the State. When full employment is the objective, "productive outlay" includes not merely the items of expenditure referred to above, but all expenditure on health, education, research, housing, etc., which add to the real income of the community. The State

\*Vide article on "Modern Budgeting" in the *Eastern Economist* (New Delhi) dated March 29, 1946.



would, therefore, be justified in meeting such expenditure from loans.

It may be argued that this huge public capital outlay for social purposes would only add to the public debt, and the short-term effect would be a deficit budget. This is no doubt true, but one should not overlook the fact that, on the credit side, there would be valuable additions to national resources and skills. Moreover, if a choice has to be made between a rising public debt and chronic unemployment, the decision should be obvious. No modern State can afford to leave a certain margin of the community's productive resources unclaimed—for that is what unemployment implies. Finally, the burden of internal public debt does not diminish the total real income of a community, but only involves a certain degree of inter-personal transfers. Such a debt is burdensome only in the sense that it involves taxation of certain classes of people to pay the interest charges to the lenders.

In all plans of full employment, it is assumed that deficit spending will have to be a normal feature of the budget. In Great Britain, the maintenance of full employment may necessitate an annual budget deficit of something like £300 millions. Now, what is important is not the volume of indebtedness which is created, but the purposes on which the borrowed funds are spent. Borrowed funds may be spent on the creation of durable assets like roads, schools, hospitals, etc., or they may be used in giving consumers' subsidies. It will be for Government to find out the social priorities of these various purposes and fit them in the general plan for maintaining full employment.

Another, and a very important, aspect of the full employment budget is the opportunity it gives to



redistribute income and thereby increase the propensity to consume and reduce the propensity to save. In this view of the subject, the object of taxation would be 'redistribution of income' rather than merely the raising of cash for the State. Even here, there is a departure from orthodox economic thought. Hitherto, taxation of the rich has been justified on grounds of social justice. In the full employment plan, taxation will have to be justified on grounds of economic reason. "A classical economist was being logical when he recommended taxing the poor rather than the rich. But a modern economist is logical when he recommends taxing those able to save rather than those anxious to consume. As a matter of fact, the argument of social justice and the economic argument have become amalgamated in the modern theory."\*

Precisely because taxation will have to be justified on grounds of economic reason, it will have to recognise certain obvious limits. It is well-known that taxation, when strained beyond a certain point, creates a new set of economic motives which may have far reaching economic effects. For example, high direct taxation may affect the incentive to invest. Again, the augmentation of small incomes, through State expenditure covered by taxation on the large incomes, may reduce the incentive to work. Thirdly, the propensity to consume, caused by redistributive taxation, may lead to inflationary dangers. The Finance Minister will have to take all these probabilities into consideration and frame his taxation measures in such a way that the economic factors conducive to a state

\*Vide the chapter on "Public Finance—Its Relation to Full Employment" in *"The Economics of Full Employment"* by T. Balogh and others (Oxford, 1945).



of full employment are disturbed as little as possible.

All these involve a new conception of the budget. "The traditional budget is built up on a conception of Revenue and Expenditure which is largely accidental and primarily legal. The new budget must be built up on an economic conception of Revenue and Expenditure". Public finance would have to be fitted into the general frame-work in the following ways. Firstly, an estimate will have to be made of the volume of total outlay required to reach full employment: this latter can be gauged from the available man-power resources of the country. The next step would be to estimate the volume of private outlay on consumption and investment, and then to bridge the gap between total outlay and private outlay by public outlay. Finally, it would be necessary to decide on the priorities of various alternative items of public outlay and to adjust the taxation programme according as there is an inflationary gap or a deflationary gap.



## CHAPTER VII

### UNEMPLOYMENT—ITS MANY FACETS IN INDIA

So far, we have analysed the nature and extent of the unemployment problem as it exists in industrially advanced countries. Let us now consider what unemployment means in the context of Indian conditions. Is the problem of unemployment fundamentally different in this country, or is it more or less the same as in Europe and America?

The answer is both "Yes" and "No". In so far as unemployment means a state of affairs in which, for various reasons, men have to remain without jobs over many months or even several years, the problem of unemployment is fundamentally the same in India as in the more advanced countries of the West. On the other hand, there are aspects of unemployment in this country of ours which are materially different from what we find in Europe and America.

Let us take these peculiar aspects or facets first. To start with, there is chronic unemployment among the agricultural population of our country. For at least five to seven months in the year, the very large number of people who derive their livelihood from agriculture have to remain idle or "unemployed". The gravity of this aspect of the unemployment problem can be gauged from the fact that at least 67 per cent



of the total population of India is ultimately dependent on agriculture, pasture, fishing and hunting as profession. This is due to a number of factors. Population has been steadily on the increase—it jumped from 352.8 millions in 1931 to 388.8 millions in 1941—but there has been no corresponding increase in the amount of land brought under cultivation nor has there been any appreciable change in the farming technique. As has been well remarked by a recent writer, “the population problem in India is that of population pressure on the natural resources, particularly on land”. While India’s population has grown relatively rapidly, the relationship existing between this population and national productivity has remained more or less static. Income from the land is hardly, if ever, sufficient to make both ends of the cultivator or agricultural labour meet and yet there have been no other sources of productive employment available in the villages. There is a conspicuous absence of occupations subsidiary to agriculture and such sources of rural income as horticulture, dairy-farming, bee-keeping or poultry-farming are confined to only certain “advanced” tracts and even there they touch only a small proportion of the rural population.

The net result of this chronic state of unemployment among the Indian agricultural population is that whenever there is a periodical occurrence of scarcity or famine, due to either natural or man-made causes, there follow, firstly, a partial or complete stoppage of agricultural operations over wide areas and, secondly, the disengagement or further unemployment of a still larger quantity of agricultural labour.

What then is the remedy? The remedy lies in the planning of agricultural production. Not only must



more land be brought under cultivation, but the entire organisation and technique of farming should be revolutionised. Land must be made to yield very much more than it has done so far : an acre of cultivated land must be able to feed a much larger number of population than hitherto. This cannot be achieved by mere rotation of crops, intensive irrigation, better drainage or sowing of better seeds : no such half-hearted measures would solve the problem of rural unemployment if the organisation of farming is left untouched. Technological schemes of increased production cannot work on an uneconomic holding of a size of no more than 2 to 4 acres, nor can a peasantry which has been virtually reduced to a state of serfdom find the incentive or enthusiasm to work out such schemes.\*

The problem will, therefore, have to be tackled at the organisational end : the existing organisation of agricultural production will have to be replaced by group farming and mechanisation. The unit of management must be increased first : "without group control over the management of land, it is not possible to create an organisational framework for bringing about a better agriculture, for assuring equality and freedom to suppressed groups, for integrating the rural and industrial economy, and, finally, for creating new social values and incentives."† Modern machinery and modern science can triumph over obstacles only when they are tried out on a fairly large scale. The advantages of large holding farming are not merely that specialised and expensive machinery can be operated continuously on such holdings : the other advantages

\*Vide the author's *"Agriculture in India: Past, Present and Future"* (Calcutta, 1944).

†Tarlok Singh : *Poverty and Social Change* (Calcutta, 1945).



are that the farm itself can operate more economically. For instance, farm buildings and other capital equipment represent a smaller relative expense as the size of the farm increases. Again, labour costs are reduced because each worker can be put to the task for which he is most suited. Finally, marketing economies can be secured by buying and selling on a large scale.

There must also be more liberal use of machinery and equipment on the larger holdings brought into being by either collectivisation or group management. This does not mean that India should forthwith import the colossuses of the Russian steppes—multi-furrow ploughs, 40 h. p. tractors and sixty-foot combine-harvesters. It only means that various kinds of small barn machinery, e. g., the chaff cutter, the root slicer, the hay elevator, the threshing machine, the water pump, the liquid manure pump, etc., should be obtained and made use of in the new holdings. It also means that the cultivator must be educated to handle improved implements and experts must be placed at his disposal to attend to all matters relating to mechanical appliances and their use on land.

Any effort to rationalise agricultural production is likely to displace a very large number of workers and, as a result, the extent of unemployment among the agricultural population is likely to increase rather than diminish.\* As has been well remarked by an authority on agricultural farming, "the speed at which farming can be rationalised and mechanised would depend on the speed at which surplus labour can

\*For a very interesting analysis of the probable extent of such displacement, the reader is referred to Chapter V of "*Poverty and Social Change*" by Tarlok Singh (Calcutta, 1945).



be transferred from the land to other occupations and at which agricultural wages can be raised." While it can be argued that technological developments in agriculture would themselves enable a somewhat larger population to be supported, it is obvious that, in the transitional period at any rate, "other occupations" will have to be found to which surplus agricultural labour can be transferred. This can be achieved only by planning a new economy—embracing both agriculture and industry. As far as the rural population is concerned, planning for new occupations should embrace re-organisation of village handicrafts, processing of local products and decentralised production of certain processes or stages of organised industry. Finally, it is probable that, as in other countries, "tertiary" occupations<sup>†</sup> will grow in this country, as agriculture is rationalised and new outlets are secured in the sphere of industrial employment. One need not be surprised if, in the course of a few years, the whole pattern of occupational distribution becomes different from what it is to-day.

The next peculiar aspect of the unemployment problem in this country is the unemployment among the intellectual and clerical or soft-handed workers constituting the so-called middle class. Middle class unemployment became rather acute after the first World War, particularly during the period 1920-38. As a result, between 1924 and 1938, a number of Provinces and States set up special Committees to investigate the nature and extent of the problem. The reports of all these Committees showed that the problem was not

<sup>†</sup>This includes all economic activities producing a non-material output, e. g., distribution, transport, public administration, domestic service, etc.



localised, but had an all-India character ; that, affecting as it did the nation's intelligent manhood, it produced a general demoralisation which was cumulative in its effect from generation to generation ; and, finally, it struck at the very root of ordered progress in as much as the victims of this evil could not help nursing a strong sense of personal injury against a state of affairs for which they themselves were not responsible.\*

This problem of middle class unemployment is mainly one of education. As has been well put by Dr. Soni, "when higher education is deplorably inefficient and cheap, it cannot but attract a large number of scholars who are too incompetent to benefit from a higher standard of instruction, or are too poor to make their contribution towards the maintenance of that standard." Universities have been turning out graduates of all descriptions on mass production lines and the value of a graduate's degree has rapidly declined. Instead of bringing enlightenment to the benighted millions of India, the so-called "cheap education" policy has perpetuated a fraud and an imposture, in as much as it raised hopes which could not possibly have been fulfilled.

The remedy lies, therefore, in so re-organising the educational system as to eliminate the present mass production. Definite competitive tests and a stiffening of standards can weed out a large number of candidates and put a stop to the useless dissipation of energy involved in running about to secure recommendations or to cultivate patronage. Improvement of the educational standards may also lead to a change in the general outlook of the people : instead of looking down upon

\*Vide the author's *"Industrial Planning : Why and How"* (Calcutta, 1944).



manual or hard-handed occupations, middle class youths may discover that their talents and energies are better suited to these rather than to soft office jobs.

Reform of education alone will not, however, solve the problem of middle class unemployment. In the final analysis, unemployment of all grades and shades is the reflex of economic backwardness : as long as the resources of the country are not exploited to the full, unemployment is bound to continue. Nevertheless, further industrial development could help at least a partial solution of unemployment among the so-called middle class in three ways. Firstly, the starting of new industries is bound to stimulate a demand for educated men possessing technical and professional qualifications. Secondly, small-scale and cottage industries which could be linked with large-scale factory concerns are bound to grow up, as the tempo of industrialisation increases. Finally, further industrial development would open up opportunities of employment as traders and middlemen.

The last peculiar aspect of the unemployment problem in this country is the almost unbelievable poverty of the people. This poverty is the consequence of general unemployment and chronic under employment—a state of affairs which is not confined to any particular class or community, but is all-pervading and omnipresent. In the highly industrialised countries of the West, unemployment has been confined more or less to those trade categories which depend on industry for their employment. Not so in India : here, while unemployment has been comparatively less pronounced among industrial workers, it has been a chronic feature among almost *all* occupational groups. In addition, there has been a considerable amount of under-employ-



ment even amongst those who are shown in census returns as persons gainfully employed.

The all-pervading character of unemployment in India is due basically to the fact that while the moorings of the old economic structure have disappeared, no new structure has yet been firmly embedded in the social life of the community. Industrialisation has been immature ; landlordism dominates the rural scene and agricultural economy still plods its weary way along the domestic economy stage. In fact, notwithstanding the external strappings of a modern economic organisation, semi-feudal conditions continue in agriculture, industry, transport and general management. To crown all, public finance in India has been almost entirely negative in its approach towards any plan of economic development of the country. It is no wonder, therefore, that the occupational distribution of population has remained more or less constant over the last half a century and the ratio of workers to non-working dependants has not also changed to any appreciable extent.\*

We thus see that industrial unemployment in the sense in which it prevails in the West does not exist in India. "Industrial unemployment is a result of the over-development of industrial capitalism—a result of an economy losing control over the continually expanding productive forces in industry." But in India, we have a case of under-development of industrial capitalism : here, industrial expansion is unable to keep pace with the growth of the general population. The net result is worse : unemployment permeates all

\*For a brilliant exposition of the structural basis of Indian economy, the reader is referred to "*The Structural Basis of Indian Economy*" by H. Venkata Subbiah (London, 1940).



sections of the population and is not confined to any particular class or group. The various occupations find themselves unable to absorb the growing population, and poverty, misery and stagnation take their toll all round.



## CHAPTER VIII

### FULL EMPLOYMENT—CAN SUCH A PROGRAMME BE LAUNCHED IN INDIA ?

We have seen that economists and politicians in the U. K. and U. S. A. were thinking in terms of a full employment policy even before the War came to an end. They were so overwhelmed by the social and economic consequences of a state of unemployment that they were prepared to go to any length to eradicate this canker from the body economic. In India, however, the idea of full employment is still considered fantastic and incapable of realisation. It is true that persons in certain high quarters have started speaking in terms of this objective, but it is also true that authorities in this country have not grasped the full implications of it yet. There is no plan to maintain total adequate outlay at all times ; on the other hand, financial inhibitions have already created a situation in which not only will there be no full employment, but quite a large number of men hitherto employed have been thrown out on the open market. The handling of narrow *monetary* problems is still regarded as a test of the general soundness of the policy of Government, and *real*, i. e., economic problems are considered in a subordinate context.

The concept of social security has not also caught on the imagination of our planners. They are still thinking



in terms of social assistance to limited groups of workers (e. g., provision of medical and educational facilities, workmen's compensation, etc.). Even the idea of social insurance has been adumbrated only recently—first, in the famous 'Bombay Plan' of Sir Purshotamdas Thakurdas and others, and, only a few months ago, in the sickness insurance scheme, costing only Rs. 2½ crores a year, drawn up by Prof. B. P. Adarkar. Even this latter scheme embraces an insured population of 12 lakhs workers in three major industries only—textiles, engineering, and minerals and metals. And there is no unemployment insurance or old age pension scheme to supplement the health scheme.

It is not denied that there are many difficulties in this country in the way of drawing up a comprehensive scheme. There is a singular absence of relevant morbidity and other statistics ; unemployment is extremely difficult to define ; the attitude of the employers is at best one of benevolent neutrality ; the structure of the joint family also stands in the way of drawing up an adequate plan. Nevertheless, unless the problem is tackled as a whole—by way of guaranteeing to every citizen a certain minimum benefit against the ordinary hazards of economic life, isolated schemes of benefit for specified groups or classes of persons are not likely to provide any appreciable social security. It is not a question of covering workers in organised industry and trade only : it is a question of guaranteeing security to *all* workers—industrial, agricultural and others.

We should not, however, confuse issues. While the guaranteeing of social security is desirable—particularly during the period of transition from the present chronic unemployment and under-employment to the hoped-for stage of full employment, the goal of



Government should be to maintain full employment. As in the Western countries, it had been possible during the period of the War to maintain a high level of employment in this country as well. A scale of expenditure which would have been considered utopian and even dangerous seven years ago had in fact been maintained for the duration of the War and that also without unduly straining the economy of the country. One does not, therefore, understand why a similar policy cannot be followed during the period of the peace. If it had been possible for the Central and Provincial Governments to spend as much as Rs. 1,198 crores during 1945-46 as against only Rs. 171 crores during 1938-39, there is no reason why a similar scale of expenditure cannot be maintained now—at the end of the War. It should be possible to take stock of the available man-power resources in the country and draw up a programme of public outlay, after first estimating how many can be absorbed by private enterprise. In this context, it would be better to employ people even in purely uneconomic or useless jobs than not to employ them at all, because those who would be taken in useless employment will, by what they earn and spend, give useful employment to others. Enforced idleness is a waste of real resources and a waste of lives—both of which are far serious wastes than the waste likely to be caused by the employment of certain individuals in relatively useless occupations.

In practice, however, no occasion would arise for having to employ men in useless occupations. For years ahead, the energies of the employable population can be used to the full in meeting urgent social needs and lifting the people out of their present squalor and poverty. There is plenty of work ahead in the spheres



of improving public health, transport and education, of planning industry and modernising agriculture, of building roads, irrigation channels and electrification units. What is needed is a grim determination to embark on a policy of adequate total outlay which would absorb the available man-power. Until this policy is pursued, such secondary measures as control of the location of industry and regulation of the labour market by the setting up of Employment Exchanges will hardly help. These latter measures can only smoothen the process of adjustment: they do not have the power to correct an obviously glaring maladjustment.

It is refreshing to note that the necessity for providing full employment has been accepted as the first objective in the Plan of Economic Development for India, drawn up by the Bombay industrialists. "Of all the measures that we suggest for raising the general level of income in India, provision of fuller scope for employment is the most important.....Provision of full employment for the working part of the population would no doubt present formidable difficulties, but without it the establishment of a decent standard of living would remain merely a pious hope."\* The Plan of the Bombay industrialists to raise the net output of agriculture to a little over twice the present figure and that of industry, including both large and small industries, to approximately five times the present output, within a period of fifteen years, is expected "to absorb a considerable part of the working population" and also "to solve the problem of disguised unemployment in agriculture." Finally, the development of social services like education and public health on

\*Vide Part II of "A Plan of Economic Development for India" by Sir P. Thakurdas & others (Bombay, 1944).



the scale suggested in the Plan and the needs of general administration and defence would also absorb a much larger number of people in "services" than at present.

The Bombay Plan recognises that even in a full employment policy there will be certain obvious gaps in employment, due to (a) the inherent imperfection in the working of a social policy, (b) certain trades like the building trade being seasonal in character, (c) changes in the technique of production and (d) variations in demand. "The number of persons who would be without work at any particular time owing to these causes could, however, be reduced to manageable dimensions if a well thought out policy of employment was in existence. When the plan is sufficiently advanced and economic conditions are to a certain extent stabilized, it ought to be possible to devise schemes of relief like unemployment insurance—for workers subject to unexpected and prolonged periods of unemployment. The Government's public works programme, in respect of both new construction and repairs, should be regulated with a view to reducing the volume of seasonal and temporary unemployment. For those who are unemployed because of technological changes, suitable courses of training to fit them for new jobs should be framed."

Unfortunately, however, no such clarity of vision can be seen in the financial and economic policies pursued so far by Government in this country. Unlike the Bombay Plan which has a vision and a goal of trebling the national income within fifteen years, the Government plan has no clearly defined end or objective.\* So far,

\*Vide P. S. Lokanathan's *"India's Post-War Reconstruction and Its International Aspects"* (New Delhi, 1946).



planning has not been planning of the material and man-power resources of the country. On the one hand, the view has been expressed that India's material resources are extremely limited and we should not, therefore, expect any large increase in the national dividend. On the other hand, it has been argued that increasing pressure of population would swallow up any increase in national income that might be achieved within a given period. Now, this kind of reasoning overlooks two fundamental truths. Firstly, the so-called "material resources" consist not merely in the supply of land, raw-materials and minerals, but in the use that is made of them. A community can greatly increase its resources by the application of technique (e. g., in the U. S. A. and U. S. S. R.) : "scarce resources in a static context can become abundant resources in a dynamic context". Secondly, increasing population also means that there is no dearth of man-power resources in the country. It is not merely that 400 million people have to be fed, clothed, housed and properly looked after : on the credit side, we have the great asset that India has vast man-power resources and, once planned economic development is undertaken, this man-power can be harnessed to the various sectors of the economy.

A programme of full employment is, therefore, not impracticable even in India. Although some writers have argued that full employment in the sense in which it has been used by Sir William Beveridge and the late Lord Keynes can be achieved only in industrially advanced countries†, the U. S. S. R. experiment should leave no room for doubt that complete mobilisation of

†Vide articles on the "The State and Full Employment" by Prof. B. N. Ganguli in the "Eastern Economist" (New Delhi), dated October 12 and 19, 1945.



a country's resources (material as well as human) with a view to achieving full employment is feasible even in countries with a preponderant agricultural economy and arrested industrial development. It is possible that the income level at which full employment will stabilise itself will be lower in India than in countries like the U. K. and U. S. A., but to say that a full employment programme is not feasible, or would be positively harmful, in this country is to overlook fundamental facts in India's economy. Of course, if employment is to be created at home, it would be necessary to obtain large quantities of capital goods for the replacement of plant and for extension of equipment ; it would also be necessary to ensure a high degree of economic mobility by control of prices, regulation of private investment, control over the location of industry and control of the labour market. These are not easy measures, but because they are not easy, we should not conclude on *a priori* grounds that a full employment policy is unthinkable.

It is true that the transitional period is going to be difficult. In spite of all the tall assertions made in certain quarters that considerable industrial development took place in India during the War, the fact is that the net advance has been very small, the index of industrial and trade activity having increased in 1946 by not more than 10 per cent over the base year 1935.\* Except in one or two lines, there has been no significant *durable* increase in productive capacity, the war-time increase in industrial employment having been due almost entirely to working on the pre-war stock of

\*For facts and figures, see the author's "Industrial Planning : Why and How" (Calcutta, 1944). With the exception of the iron and steel industry, there is hardly any other industry which can be said to have expanded beyond even the existing consumption capacity of the country.



equipments at greater intensity. Unless, therefore, adequate capital goods are made available, it would be impossible to maintain employment even at the war-level, not to speak of increasing it. On the other hand, it should not be difficult to have, during the period of transition, a well-concerted and synchronised public expenditure programme, which might be utilised as a stage of planned economic reconstruction and employment. Unfortunately, however, no such programme has yet been chalked out and the financial policy hitherto pursued by Government is not also such as to inspire the hope that such a planned programme will materialise in the near future. In the U. K. and the U. S. A., financial policy is directed and subordinated to the achievement of an economic goal. In India, financial policy continues to be indeterminate : there is no linking up with a definite objective, mainly because there is none, except of a very nebulous and defective kind. For instance, it is admitted that the crying need of the hour is capital goods, but no efforts are made to get the transport and foreign exchange for obtaining these goods. Again, the hope is expressed that the Provinces and private industry should fill in the gap in expenditure during the transitional period, but it is overlooked that few of the Provinces have the means to do it and private industry can do very little if capital and trained personnel are lacking. On the other hand, in the name of planning, dubious controls are being continued : restrictions are being imposed before even the foundation of the superstructure has been laid.\* The two most important

\*The position has been summed up by Mr. G. D. Birla in very picturesque phraseology. He declared at the 19th session of the Federation of Indian Chambers of Commerce and Industry (held in April 1946) : "To talk of checks now is like talking of regulation of traffic at a place where there is neither traffic nor road."



handicaps under which private industry has been labouring are (i) licensing of capital issues and factories and (ii) unavailability of capital goods. The case for continuing the former restriction is more than offset by the need for encouraging private investment, particularly as large-scale public outlay is not likely to materialise for a considerable time to come. As regards the latter, it has become obvious that the acquisition of capital goods from abroad is now a question of bargaining power backed by political power, and, placed as India is, she lacks both.

Considerable publicity has been given to the measures adopted by Government for the resettlement and employment of persons who had secured employment, whether in the Armed Services or in mills and factories or in secondary occupations, during the War and who are in the process of displacement now. It has been estimated that the number involved is in the region of 8 million workers, but there are no plans, either of Government or of private industry, to absorb this number. The post-war "plans" are still in a nebulous stage and the only concrete organisation that has been set up is a network of Employment Exchanges within the country. Employment Exchanges cannot, however, *create* any employment: they merely canalise the flow of employment-seeking personnel and, by bringing employment-seekers in close contact with opportunities of employment, they only help the mobility of labour, occupational as well as geographical. Nor are the existing training schemes of much help in solving the acute problem of unemployment in this country. Unrelated as they are to the future requirements of industry and trade—and this is bound to be so when even plans of industrial and trade development do



not exist—these schemes are likely to add to the problem, rather than assist in the mitigation of it. Moreover, the emphasis laid on the resettlement and employment of only displaced Services personnel and war-workers, who, after all, constitute only a small fraction of the huge number always in a condition of 'disguised unemployment', is likely to lull us to a false sense of security and make us think that once these men and women have been suitably employed, the problem of unemployment will disappear. The re-employment of 8 million men is no doubt important, but this would fall into its proper proportions when we remember that the vast majority of our urban and rural population are in a chronic state of semi-unemployment.

Sceptics may ask how a programme of full employment can be launched in this country when agriculture is so backward and industrial absorption so difficult owing to the shortage of capital equipment. The reply is that although full employment in the accepted sense of the term may not be within sight in the immediate future, the objective must be one of full employment, and all the economic efforts and policies of Government should be directed towards that end. Here, India may well take a lesson from the policy pursued by Denmark during the years 1940-44. In that country, all economic and social policies of Government, whether they were price policy, wage policy, interest policy, trade policy or taxation policy, had only one guiding principle, viz., whether they would create the conditions necessary for an increase in employment. In other words, employment problem in that country was viewed, not as a "residual problem" which "remained" after other problems had been solved in the light of conflicting ideologies and objectives, but as a "determining factor",



in the very settlement of those problems. Over and above this, the State also adopted a *direct* employment policy—by launching a programme of public works and also by granting loans and subsidies towards the rebuilding, extension and repairs of houses, factories, installations and plants, when these were undertaken by private entrepreneurs.\* India, too, can follow a similar policy, viz., pursue all her economic and social plans with the one guiding principle of increasing employment, and at the same time embark on a bold programme of public works, supplemented by a policy of loans and subsidies to private entrepreneurs, where necessary. In addition, steps could be taken, as in Denmark, (a) to re-train and re-equip for employment those who have become handicapped in their trades owing to circumstances beyond their control, and (b) to organise labour camps with a view to repairing the damage caused to the unemployed and under-employed by long periods of enforced idleness. If a simultaneous attack were made on all fronts on the lines indicated above, it is certain that the margin of unemployment could be reduced, within the next quinquennium or two, to an insignificant “frictional quantum”.

It is sometimes argued that India can have full employment, but only at a price, viz., by accepting a definite decline in her standard of living. While a decline in the standard of living is probable during the period of transition, full employment together with a higher standard of living is not only conceivable but feasible in the near future, provided plans are framed and executed with the definite objectives of utilising to the fullest extent all material

\**Socialt Tidsskrift* (Ed.) : *Social Denmark* (London and Copenhagen, 1946).



and human resources and of adding substantially to the national dividend. As a matter of fact, it is *possible* to draw up a full employment programme on the basis of a definite standard of living for the people of a country. The choice before us to-day is not between unemployment with a high standard of living and full employment with a lower standard of living. Our national income is already pretty low and if the level of employment continues to be low or falls still further, it would create a slump which, gathering momentum, would weaken and distort the economic structure still further and make the national income lower still. If, however, public expenditure in various spheres of economic and social development and welfare is undertaken with a view to maintaining prices and activity, and adequate scope and assistance given to private enterprise to increase their activities, it would not only create a condition of economic expansionism, but maintain employment at an adequate level. A beginning may be made with such schemes of public outlay as require only relatively limited imported capital equipment, e. g., construction of roads, flood control and irrigation projects, expansion of education, building of houses—rural as well as urban, and various public health and sanitation projects. Such public outlay would absorb not only those thrown out of their war-time jobs, but millions of others who seek employment for the first time every year. In the process and ultimately, the standard of living would not only not suffer, but improve.

The issue is clear for India as for every other country in the world. If it is admitted that unemployment is an evil fraught with grave social, economic and



political consequences, every effort must be made to blot out this man-made scourge. The only effective manner in which this can be done is by adopting an economic and social programme which has full employment as the objective : and such a programme can be translated into reality, if the State would only take the elementary precaution of mapping out the structures of consumers' and producers' demand for various goods and services at successive stages of development and of determining the order of priorities thereof. With objectives clearly defined, the programme carefully mapped out and a determination to carry out the programme in the face of all odds, it should not be difficult to achieve full employment even in a backward and under-employed country like India.



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